MetLife to pay record Finra fine for misleading annuity customers

Insurer's $25 million fine the largest variable annuity penalty

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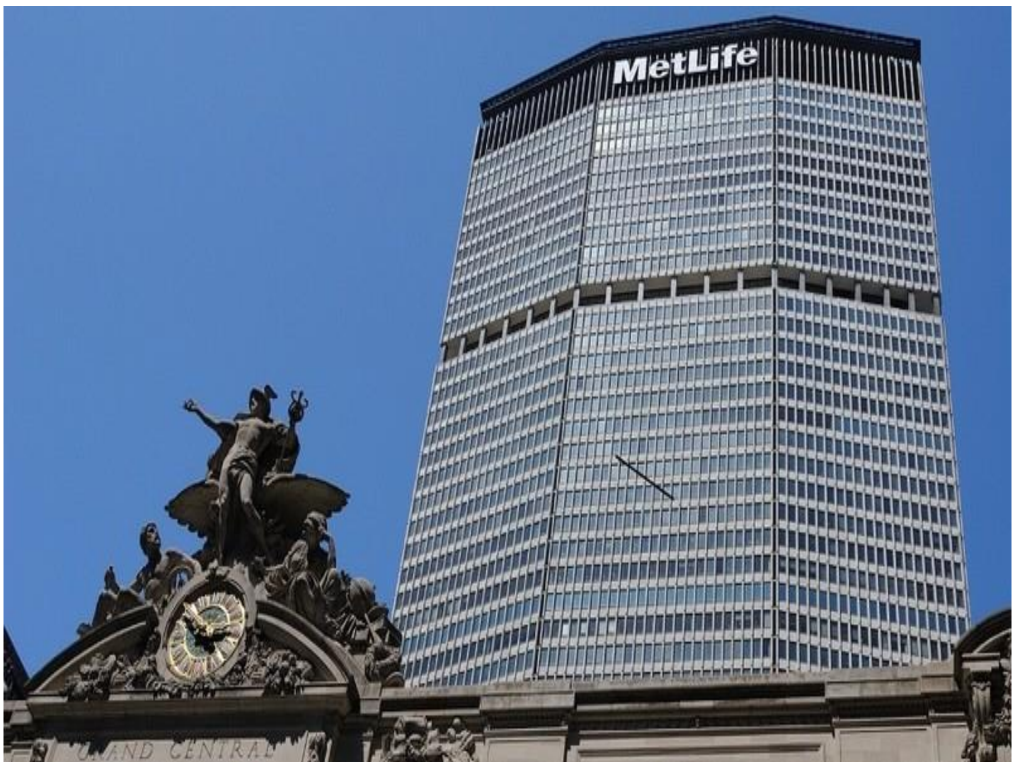
By **Bloomberg News**



MetLife Inc. agreed to pay $25 million to settle a probe of abuses tied to variable annuities, the highest-ever penalty for those products by the Financial Industry Regulatory Authority.

The sum includes a $20 million fine and $5 million to be paid to customers for "negligent" misrepresentation and omissions, according to a statement Tuesday from Finra, a brokerage regulator funded by the finance industry. The largest U.S. life insurer neither admitted nor denied wrongdoing.

"Variable annuities are complex and expensive products that are routinely pitched to vulnerable investors as a key component of their retirement planning," Brad Bennett, Finra's chief of enforcement, said in the statement. "Firms engaging in this business must ensure that the information on the costs and benefits of these products provided to customers is accurate."

Watchdogs have been increasing scrutiny of variable annuities, which can combine securities investments with guaranteed income, an arrangement that may generate attractive fees for insurers. The U.S. Labor Department announced a new fiduciary rule in April to protect retirement savers from conflicted investment advice, presenting a particular obstacle to companies that create the products and also have sales forces to distribute them.

"I wouldn't say I'm surprised [by the Finra action], given the pressure we've seen on variable annuity sales from the regulatory environment in general," said Judson Forner, vice president of investment marketing at ValMark Securities Inc.

MetLife agreed in February to sell the broker-dealer unit and an adviser force to **Massachusetts Mutual Life Insurance Co.** The New York-based company disclosed the Finra investigation in a November regulatory filing.

The probe is tied to abuses from 2009 to 2014, including cases where the broker-dealer falsely told customers that new annuities were cheaper than the products they were replacing, according to Finra. MetLife also sometimes failed to tell customers that new annuities would reduce or eliminate some benefits, the regulator said.

In that period, the company misrepresented or omitted at least one material fact in 72% of the 35,500 variable annuity replacement applications that the insurer approved, according to the statement. Still, the firm's principals approved the flawed applications more than 99% of the time, Finra said.

Finra also found that the customers paid a substantial amount in "fees and charges," even though such costs were typically listed as $0.00 in quarterly account statements. MetLife was fully reserved for the matter and cooperated with the regulator, said John Calagna, a spokesman for the insurer.

"We are pleased that this matter has now been resolved to the satisfaction of all parties involved," MassMutual's Jim Lacey said.

The Finra penalty highlights the need for financial advisers to understand the details of the VAs they're selling and to record their recommendations to clients to purchase them.

"If we're diligent and educated and documenting what we're doing, we should be in as good a position as we can be," Mr. Forner said.